



JUN 13 1981

Gentlemen:

Your application for exemption from Federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code has been considered.

The information submitted discloses that you were incorporated under the [REDACTED] Non-Profit Corporation Act on [REDACTED] exclusively for charitable, educational, and scientific purposes within the meaning of section 501(c)(3) of the Internal Revenue Code. In order to accomplish your purposes, you will:

- (a) Develop a comprehensive program for the promotion of patterns of human interaction resulting in the efficient delivery and exchange of information, services, and materials ("networking").
- (b) Engage in research concerning all aspects of networking, including study into the application of computer technologies.
- (c) Inform and educate the public through the dissemination of facts, ideas, and information that may contribute to a fuller understanding of networking.
- (d) Train individuals in all skills related to networking and to consult with and advise any group or organization about the establishment, management, use, evaluation, and improvement of networking processes.
- (e) Maintain a networking service.
- (f) Publish and distribute materials concerning all aspects of networking philosophy.

Your application for exemption states that you will conduct research and educational activities about all phases of "networking" and promote the concept of "open network," including maintaining an open network service

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You state that "networking" is information exchange usually leading to further exchanges. You also state that it is an extension of old-fashioned neighborliness--contacting a neighbor to get information, help with solving a problem or getting something done or share talk and time.

You will sell publications and the open network service, and provide consultation services. There will be an annual fee of \$[REDACTED], and for consultation, the fee will be \$[REDACTED] per hour. If an individual pays the annual fee, he is free to use the computers at any time during the year.

Your Articles of Incorporation states that you shall have no members, and that the affairs and management of the organization shall be under the control of a board of directors. All new directors must be nominated by the current board of directors.

Your source of income will be from foundations and corporate grants, fees for your open network service, donations, consultation fees, sales of networking publications, and money raised through your networking educational programs. Expenditures are for salaries, overhead, office expenses, computer expenses, advertising, promotion and miscellaneous expenses.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(3) Corporations, *** fund, or foundation, organized and operated exclusively for religious, charitable, scientific, *** literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involved the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office."

Section 1.501(c)(3)-1 of the regulations provides, in part, as follows:

"(a)(1) In order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt."

"(b) (1) An organization is organized exclusively for one or more exempt purposes only if its articles of organization (referred to in this section as its 'articles') as defined in subparagraph (2) of this paragraph:

(a) Limit the purposes of such organization to one or more exempt purposes; and

(b) Do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes."

"(c) (1) Primary activities. An organization will be regarded as 'operated exclusively' for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose."

"(d) (1) (i) An organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (1) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interest such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interest."

"(d) (2) Charitable defined. The term 'charitable' is used in section 501(c)(3) in its generally accepted legal sense and is, therefore, not to be construed as limited by the separate enumeration in section 501(c)(3) of other tax exempt purposes which may fall within the broad outlines of 'charity' as developed by judicial decisions. Such term includes: Relief of the poor and distressed or of the underprivileged; advancement of religion; advancement of education or science; erection or maintenance of public buildings, monuments, or works; lessening of the burdens of Government and promotion of social welfare by organizations designed to accomplish any of the above purposes, or (i) to lessen neighborhood tensions; (ii) to eliminate prejudice and discrimination; (iii) to defend human and civil rights secured by law; or (iv) to combat community deterioration and juvenile delinquency."

"(d)(3)(1) In General. The term 'educational', as used in section 501(c)(3), relates to-

- (a) To instruction or training of the individual for the purpose of improving or developing his capabilities; or
- (b) The instruction of the public on subjects useful to the individual and beneficial to the community.

"(d)(5)(i) Scientific defined. Since an organization may meet the requirements of section 501(c)(3) only if it serves a public rather than a private interest, a 'scientific' organization must be organized and operated in the public interest, *** . Therefore, the term 'scientific', as used in section 501(c)(3), includes the carrying on of scientific research in the public interest. *** "

Section 1,501(c)(3)-1(e)(1) of the Regulations provides that an organization may not meet the requirement of section 501(c)(3) of the Code if the organization has, as its primary purpose, the carrying of a trade or business.

Revenue Ruling 74-116, 1974-1 Cumulative Bulletin 127 held that an organization whose membership is limited to organizations that own, rent, or use a specific type of computer and whose activities are designed to keep members informed of current scientific and technical data of the computer is not exempt under section 501(c)(3) of the Code. By making specialized information available to its members, the organization is serving the private interest of its members rather than a public interest.

Revenue Ruling 72-369, 1972-2 Cumulative Bulletin 245, holds that an organization formed to provide managerial and consulting services at cost to unrelated exempt organizations does not qualify for exemption under section 501(c)(3) because providing such service on a regular basis for a fee based on cost is a trade or business ordinarily carried on for profit and lacks the donative element necessary to establish the activity as charitable.

In case of Better Business Bureau v. U.S., 326, U.S. 279 (1945) Ct. D. 1650, it was held that the presence of a single noncharitable or non-educational purposes, if substantial in nature, will preclude exemption under section 501(c)(3), regardless of the number or importance of truly charitable or educational purposes.

Based on the information presented, we have concluded that you are not operated exclusively for section 501(c)(3) purposes. While some of your activities may be educational, such as your seminars, your primary purpose is providing information to your members for a fee, and you are not operated for an exclusively charitable or educational purpose. Accordingly, you are not exempt from Federal income tax under the provision of section 501(c)(3) of the Code, and you are required to file Federal income tax returns on Form 1120.

It follows, therefore, that contributions to you are not deductible by donors under section 170 of the Code.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible. You should also file the enclosed Federal income tax return(s) within 30 days with the Chief, Employee Plan/Exempt Organization Division 1100 Commerce, Dallas, Texas 75242.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

If this determination letter becomes a final determination, we will notify the appropriate State Officials, as required by section 6104(c) of the Code, that based on the information we have, we are unable to recognize you as an organization of the type described in Code section 501(c)(3).

Sincerely,

District Director

Enclosure:
Form 6018
Publication 892